



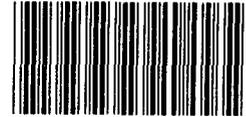
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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ENERGY AND MINERALS
DIVISION

DECEMBER 28, 1979

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The Honorable Charles W. Duncan, Jr.
The Secretary of Energy

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Dear Mr. Secretary:

Subject: [National Energy Planning II] (EMD-80-43)

The General Accounting Office has conducted an examination of the administration's energy planning process with particular emphasis on the National Energy Plan II (NEP II) furnished to the Congress on May 7, 1979. During our work we interviewed numerous Department of Energy (DOE) and other executive branch officials, including persons in the Office of Management and Budget, as well as the White House Staff, involved with energy planning, and reviewed such documents as were made available to us. While we also gathered information on the relationship between the planning efforts that resulted in NEP II and those that resulted in the package of energy proposals which the President announced on July 15, 1979, we basically concentrated on NEP II and the process which the Department of Energy followed in developing it.

Since the Department of Energy Organization Act of 1977 (P.L. 95-91) requires that the President submit a National Energy Plan to the Congress every 2 years, the next plan is due in April 1981. As you know, the law specifically requires that the plan consider national security and national and regional economic and environmental requirements. While we believe that considerable progress has been made to date, our current work disclosed that improvements can be made in the integration of three areas of important national interest into national energy planning.

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Specifically, we found that:

- The national security implications of the vulnerability of our major oil supplies and supply routes to intervention by unfriendly countries and terrorist activities should be assessed more carefully. Also, the extent and nature of our reliance on the Strategic Petroleum Reserve (SPR) needs to be reexamined in light of existing circumstances.
- The Nation's special regional needs should be treated more fully than has been the case in the planning accomplished so far. We found that representatives of State and local governments did not believe they had an opportunity for meaningful participation in the administration's energy planning process.
- The national environmental concerns should be considered much more carefully in the preparation of future energy plans. In our view an environmental impact statement should be prepared and submitted with the next National Energy Plan (NEP III) or otherwise made available.

Our concerns in each of these areas are explained more fully in the following comments.

NATIONAL SECURITY

The NEP II did not adequately treat national security considerations either in terms of the ability of the United States to respond to supply interruptions, or in the evaluation of efforts to build domestic oil reserves for use in the event of supply interruptions.

Supply Interruptions

We have been told that a national security assessment is currently being conducted of U.S. oil import dependency, the defensibility of major foreign oil fields, the major sea lanes, including the Straits of Hormuz, and U.S. preparedness for dealing with a range of contingencies which would threaten vital supplies. No such study was undertaken as part of the NEP II process. Such a study in our view should be an integral part of NEP III.

Every major oil loading port in the Persian Gulf and most of the Saudi Arabian and the United Arab Emirates oil fields are within 900 miles (a 90-minute subsonic flight) of the Soviet Union. In excess of 60 percent of the oil consumed each year in the Free World (35 percent of all energy) can therefore be considered highly vulnerable. Also, the threat of external attack from other nations cannot be totally discounted, nor can the possibility of insurrection or other events which could lead to a disruption in the flow of crude oil imports into the United States and other oil-dependent nations, such as occurred in Iran in November 1979.

Strategic Petroleum Reserve

Since 1975, with the enactment of the Energy Policy and Conservation Act of 1975 (P.L. 94-163), the Strategic Petroleum Reserve (SPR) was seen as providing a cushion against the interruption of imports. The SPR was initially planned to have 500 million barrels of crude oil stored by January 1981. In 1977, the target figure was raised to 1 billion barrels to be in place by 1985. But the present reserve level is approximately 92 million barrels with serious questions whether the program can reach its goals or will even be continued. Since March 1979, the program has been held in abeyance and the fiscal year 1979 budget requested no new spending authority to resume purchases to fill the reserve.

We have issued several reports describing various problems with the SPR program. In connection with our current work, however, we looked at its relationship with NEP II and found that in NEP II the SPR was considered a vital and singular insurance policy against oil supply interruptions. Notwithstanding the various problems we have pointed out with the SPR program, the world supply and price situation conspires against comfortable reliance on such an insurance policy. Department of Energy officials pointed out during our interviews that the diversion of crude to the SPR in a tight world oil market would have considerable negative effect on prices and supplies in domestic and international oil markets. In addition, the President's commitment in Tokyo last June and his subsequent announcement on July 15, 1979, to limit imports to 8.2 million barrels per day in 1979 and to 8.5 million barrels per day through 1985 may work against any efforts to import oil for storage in the SPR.

Therefore, the SPR program is, even under the most optimistic projections, in trouble, and alternatives must be considered and reflected in the development of NEP III.

SPECIAL REGIONAL NEEDS

The DOE Organization Act of 1977 requires State and local government participation in the planning process. DOE attempted to fill this requirement by holding 6 days of hearings on NEP II, 1 day in each of six cities. However, only about 245 participants in all had an opportunity to express their views. Only about 30 to 35 represented State, local, and regional governments and an undetermined number represented the Federal Government. Almost one-fourth of the participants came from the energy industry.

State and local government representatives claimed in our interviews that there was little opportunity for their active and meaningful participation in the development of NEP II. For example, we were told that the preliminary outline of the plan was not sent to the participants until after the hearings were underway, and that there was not even a common reference point other than energy in general, on which participants might have focused their attention or directed their comments. Even DOE's report of the hearings reflected the opinion that the hearings were "not an effective mechanism for public participation." We believe a similar evaluation applies to participation of vitally interested governmental entities as well. While DOE officials stated in interviews that the delayed passage of the National Energy Act of 1978 prevented the hearings being held earlier or afforded more time, they did feel that the hearings served a purpose as "consciousness raising sessions" and did elicit some proposals that found their way into the plan (e.g., assistance to poor people to diminish the effects of higher energy prices). On balance, though, they expressed doubt that the effort was worthwhile.

State government representatives expressed their views that the delayed passage of NEA may indeed have set back the schedule, but that was not the only reason why they did not feel satisfied with the adequacy of the process. While State government representatives felt they could have made more meaningful contributions to the plan if they had been given more time, they expressed their belief that DOE seemed only to be going through the motions. No one interviewed

by us thought that a real effort had been made to bring States or local government into the process on a satisfactory or regular basis, through the hearings process or otherwise.

We recognize that the issue of proper State and Federal coordination on energy matters is a longstanding one affecting many Federal agencies and States and is not one easily resolved to the satisfaction of interested parties. However, over the years a body of knowledge has developed on this subject matter through congressional laws and executive Branch rulemaking. In addressing your particular problems, you might wish to consider and draw upon this body of accumulated knowledge. For example, the recently passed Outer Continental Shelf Lands Act of 1978, as amended (P.L. 95-372), requires that the Secretary of the Interior provide written comments on proposals or suggestions of State and local governments. It was believed that passage of this requirement would assist in resolving longstanding concerns by the States about the lack of proper recognition of their views by the Federal Government in its planning process.

ENERGY AND THE ENVIRONMENT

The fact that NEP II dedicated only about four pages at the very end of its otherwise substantial volume to environmental protection goals in the formulation of recommended energy programs leads us to believe that environmental impacts did not receive adequate consideration in NEP II. Moreover, no environmental impact statement or analysis of the environmental effects of the initiatives contained in NEP II or the President's subsequent energy announcements have yet been issued.

DOE recognized its responsibility for preparing an environmental impact statement in accordance with S.102(2)(c) of the National Environmental Policy Act of 1969 (P.L. 91-190), and announced that it was planning to fulfill that requirement (Federal Register, Oct. 11, 1978, p. 46927). We have been unable to find out why that announced intent was not carried out.

While the short life span of NEP II may have made it difficult to write an environmental impact statement, we believe the Congress made clear that it intended environmental concerns to be considered an integral part of the planning process and a major element in the energy policy

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formulation. We believe that DOE should prepare and release an environmental impact statement concurrent with all future energy plans.

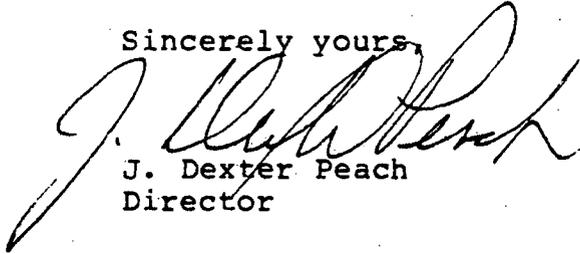
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Our purpose is to assist you in efforts to improve future National Energy Plans. I am certain that you will agree that top DOE officials will need to continually designate improvement of energy planning as a high priority item within the Department.

In the work we have just completed, we looked at the last National Energy Plan (NEP II) and more specifically at the extent to which it treated areas required for consideration by the DOE Organization Act. We found three important areas where lessons could be learned to improve the future energy planning process: National security implications of supply problems need to be assessed more cogently; the Nation's regional requirements need more careful attention; and the assessment of environmental impacts should be undertaken in tandem with national energy planning.

If you would like to discuss these issues in more detail, my staff and I are available at your request.

Sincerely yours,



J. Dexter Peach
Director